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The President's Daily Brief

17 October 1969

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~~*Top Secret*~~

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THE PRESIDENT'S DAILY BRIEF

17 October 1969

PRINCIPAL DEVELOPMENTS

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West German financial officials are recommending a revaluation of the mark in the 8 to 10 percent range. *(Page 2)*

The Communist Chinese are strengthening their air defenses along the Soviet and Mongolian borders. *(Page 3)*

La Paz is considering a plan for nationalization of Bolivian Gulf Oil. *(Page 4)*

Japanese Prime Minister Sato is moving adroitly to line up wide political support for his handling of the Okinawa issue. *(Page 6)*

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VIETNAM

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FOR THE PRESIDENT ONLY

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WEST GERMANY

[redacted] at a meeting on 9 October, Germany's Central Bank Council at the urging of Bundesbank President Blessing recommended an 8-10 percent revaluation of the mark. Blessing had earlier preferred a revaluation of about 6.5 percent; this new recommendation presumably reflects the views of the incoming Brandt government. The German Council of Economic Experts has recommended a similar revaluation. The new exchange rate is to be set during the weekend of 25 October, after the new cabinet takes over. 50X1

Revaluation of this magnitude is not likely to have an immediate adverse effect on the West German economy. Industry is operating at full capacity, and orders already on the books guarantee a high level of production and employment for several months. There will probably be a permanent repeal of the four percent border tax measures, thereby reducing the effective rate--as far as German industry is concerned--to no more than 4-6 percent.

Brandt, by making his first major decision one in the economic area, will fulfill his previously announced intent to concentrate on domestic issues. This tactic serves to remove the spotlight from the realm of foreign policy, where the government's approach, particularly its more activist line toward the East, could prove controversial.

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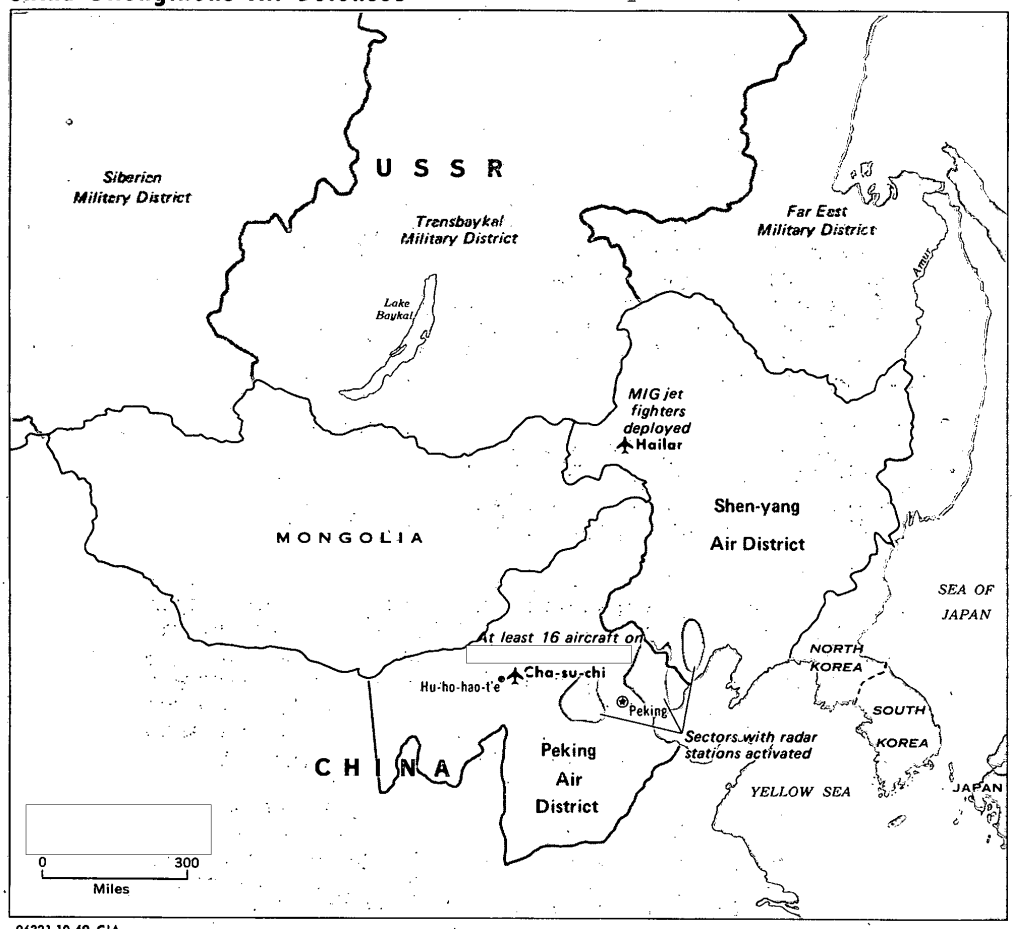
China Strengthens Air Defenses



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CHINA-USSR

Satellite photography of August showed that Chinese jet fighters had been deployed to Hailar airfield for the first time. Hailar is about 65 miles from the Mongolian border in northeastern Inner Mongolia. The most recent satellite photography [redacted] showed 16 aircraft at another airfield near Hu-ho-hao-t'e, also in Inner Mongolia. The planes appear to be jet fighters. The airfield--Cha-su-chi--was started 14 months ago and was rushed to completion only last month. 50X1

[redacted] 50X1

These developments fit a pattern we have noted for some time: the gradual improvement of China's air defenses along the Soviet and Mongolian borders to close large gaps.

During the past several months the Soviets have been strengthening the western and central sectors of the frontier where their forces are weakest. Earlier they had deployed ground and air units to border positions opposite Manchuria, where the Chinese have also been strengthening their air defenses.

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BOLIVIA

The cabinet, under pressure from its ultranationalistic members, is now considering a plan for nationalization of Bolivian Gulf Oil. Somewhat unrealistically the ministers are discussing a scheme whereby Bolivia would receive aid from Europe and Japan that would enable it to operate the company's holdings profitably.

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Since Ovando took over the government on 26 September, there has been a growing outcry for the nationalization of the company. Demands of students, labor, and leftist political groups for expropriation were encouraged and given respectability by Ovando's own nationalistic statements. Ovando declared recently that such a drastic move is "unnecessary," but he may be unwilling or unable to withstand the pressure for nationalization from both within and outside the government.

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BRAZIL

Interior Minister Costa Cavalcanti has told the US Embassy in Rio de Janeiro that President-designate Medici plans to make a number of cabinet changes. The shift of Labor Minister Passarinho to the education ministry, replacing ineffective Tarso Dutra, raises the possibility of reforms in this long-neglected field. The designation of Ambassador to the US Mario Gibson to replace Foreign Minister Magalhaes Pinto could be a boost for US-Brazilian relations. Some improvement is also likely in the ministries of Health and Agriculture, whose present heads--along with Dutra--are considered the least effective men in the cabinet. Finance Minister Neto will be retained.

[redacted] 50X1

[redacted] the new minister for that service will probably be General Orlando Geisel, currently chief of the armed forces joint general staff. Medici also plans to name retired Admiral Rademaker Grunewald as vice president and to appoint Alfredo Buzaid as justice minister. 50X1

These shifts indicate that the general policy lines of Costa e Silva will be retained but that the over-all competence of the cabinet will rise noticeably. The appointments of Rademaker Grunewald and Buzaid could be unpopular among Brazilians desirous of reform. The admiral does not have the united support of the navy, and some officers of the other services, particularly the air force, strongly oppose him. Buzaid is greatly disliked by students and liberals for his heavy-handed purge of professors at the University of Sao Paulo last year.

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JAPAN

Sato met this week with opposition leaders from the middle-of-the-road Komeito and Democratic Socialist parties to reaffirm the government's commitment to get reversion of the Ryukyus by 1972. The party leaders urged the prime minister to press the US for "homeland level" reversion, which calls for removal of nuclear weapons from Okinawa and placing US forces there under the same restrictions that apply in Japan. They also reaffirmed that friendship between Japan and the US was basic policy in their respective parties.

Sato, looking toward his talks next month in Washington, is missing no opportunity to prove that his policies represent bedrock national consensus, and is moving skillfully to harness support above party lines for his handling of the Okinawa issue. The timing of his own party's announcement this week that it supported continuation of the Japan-US security treaty "for a considerable length of time" suggests that it too was intended to strengthen his hand in the forthcoming talks.

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